

PART 2006 - MANAGEMENT

SUBPART M - Management Control System

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PART 2006 - MANAGEMENT

Subpart M - Management Control System

§ 2006.601 General.

(a) The Federal Managers' Financial Integrity Act (FMFIA) of 1982 mandates that each Agency in the Executive Branch of the U.S. Government establish and maintain a management control system to assure:

- (1) Obligations and costs comply with applicable law;
- (2) Funds, property, and other assets are safeguarded from fraud, waste, loss, unauthorized use, or misappropriation; and
- (3) Revenues and expenditures are properly recorded, accounted for, and reported.

(b) The FMFIA further requires that heads of Agencies report annually to the President and Congress on the effectiveness of the Agencies' management control systems and delegates responsibility for guidance on implementation to the Office of Management and Budget (OMB) and the General Accounting Office (GAO).

(c) The OMB Circular A-123 placed an additional requirement on each agency in the Executive Branch of the U. S. Government by mandating that programs are effectively and efficiently carried out in accordance with applicable law and management policy.

(d) This Instruction defines Rural Development's mission area management control system, details the procedures to implement this system, and describes its reporting requirements.

(e) The State Internal Review (SIR) Handbook, as described in §2006.603 of this Instruction, should be used to review the specific administrative/program functions regardless of which office is conducting that function (i.e., program functions that have been centralized in the State Office).

(f) Management control reviews are conducted on a 5-year cycle of all assessable units within the Rural Development mission area utilizing high level control objectives and techniques developed by management.

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§ 2006.602 Sources of information.

The following is a list of documents, laws, regulations, and guidance pertaining to management control system requirements applicable to Rural Development:

- (a) Federal Managers' Financial Integrity Act of 1982.
- (b) OMB Circular A-123, Management Accountability and Control, dated June 21, 1995.
- (c) OMB Internal Control Guidelines dated December 1982.
- (d) Standards for Internal Controls in the Federal Government issued by GAO in 1983.
- (e) U. S. Department of Agriculture (USDA) Guide for Management Control dated August 1985.
- (f) USDA Departmental Regulation No. 1110-2, "Internal/Management Controls."
- (g) Inspector General Act Amendments of 1988.

§ 2006.603 Definitions.

Action plan. A plan detailing how deficiencies identified in a review will be corrected.

Assessable unit. Functional areas or components within the Rural Development mission area of an appropriate nature and size to facilitate meaningful risk assessments and management control reviews.

Control objectives. Documented policies/objectives to minimize and control risks and ensure programs operate as intended.

Control techniques. Documented procedures to achieve control objectives and assure adequate controls exist.

Corrective actions. Proposed solutions to deficiencies identified in any of the review processes mentioned here. Each corrective action should contain specific activities/performance to eliminate or reduce the occurrence of the deficiency, target dates for completion, and names of officials responsible for implementation.

§ 2006.603 (Con.)

Entrance conference. A brief discussion by the review team with the respective staffs held prior to, or at the beginning, of all on-site reviews.

Exit conference. An on-site conference or teleconference held at the conclusion of all reviews for the review team's presentation of findings.

Follow-up. The act of reviewing the corrective actions to assure that they were implemented as intended, and that the deficiencies are in fact reduced or eliminated by the corrective actions.

Management controls. Management controls are the organization, policies, and procedures used to reasonably ensure that:

- (1) Programs achieve their intended results;
- (2) Resources are used consistent with Agency mission;
- (3) Programs and resources are protected from waste, fraud, and mismanagement;
- (4) Laws and regulations are followed; and
- (5) Reliable and timely information is obtained, maintained, reported, and used for decision making.

Management Control Advisory Group (MCAG). Advisory groups established for Operations and Management (O&M), the Office of Community Development (OCD), and each Agency within the Rural Development mission area, and comprised of National Office and field level employees. The MCAGs report to their respective Agency Administrator/Deputy Administrators and the Senior Management Control Council (MCC) on management control issues within their Agency. The MCAGs develop and recommend a 5-year management control review (MCR) plan for their group, to be reviewed and approved for inclusion in the overall 5-year MCR plan for Rural Development.

Management Control Officer (MCO). Personnel in each State and in the National Office, who maintain a working knowledge of all management control issues and MCR documents, provide guidance to other managers on MCR requirements, and perform tracking and follow-up activities to assure implementation of corrective actions.

Management Control Review (MCR). A detailed examination of specific functions to determine whether necessary controls are in place and producing the intended results, compliance with applicable laws and regulations, and provide solutions to reduce or eliminate any deficiencies.

Mini-State Internal Review (Mini-SIR). A review of a segment or section as deemed appropriate once a comprehensive SIR has been completed and will not exceed the schedule for the next complete review. Several Mini-SIRs may occur between SIRs.

Nationwide Summary Report of SIRs/Mini-SIRs. A nationwide compilation of State SIR summaries prepared by the Financial Management Division (FMD).

Other reviews. Other reviews, such as computer, security reviews done in accordance with OMB Circular A-130, and financial system reviews done in accordance with OMB Circular A-127 also constitute MCRs.

Pre-exit conference. A joint work session of all team leaders and members, under the direction of the MCR coordinator to discuss findings, resolve conflicts, and reach agreement prior to the exit conference.

Resources. Personnel, information (such as reports, loan and grant documents, computer data), and assets (such as cash, equipment, inventory property).

State Internal Review (SIR). Reviews conducted by SIR teams of overall program and administrative operations in field offices and centralized program functions within a State.

Senior Management Control Council (MCC). An advisory council comprised of senior management and State Directors, as appointed by the Deputy Under Secretary for Operations and Management to advise and make recommendations on internal control issues.

SIR handbook. National Office approved questionnaires for review of all program and administrative operations administered by the State. The appropriate National Office program and administrative area will be responsible for updates and revisions. Coordination and consolidation of all changes will be made on an annual basis by the FMD.

§ 2006.603 (Con.)

SIR team. Team members who conduct the SIRs within a State as designated by the State Director.

State Senior Management (SSM) team. Team members selected by the State Director to preplan SIRs, and make recommendations for final closure of SIR reports.

State Summary Report of SIRs/Mini-SIRs. A summary of SIR/Mini-SIR findings identified by office, including recommendations for training needs.

Tracking System. A method for maintaining current information on the status of MCRs, SIRs, investigations, audits, and hotlines/whistleblower complaints.

§ 2006.604 Purposes.

The management control system consists of a series of mechanisms to determine whether:

- (a) Policies and procedures for making, servicing, and liquidating loans and grants are properly developed, issued, and implemented;
- (b) Administrative functions (such as personnel management, budgeting, contracting, acquisition, and maintenance of space and equipment, etc.) are performed in an efficient and cost-effective manner;
- (c) Training is sufficient to provide for a skilled and knowledgeable workforce;
- (d) Resources are monitored, reported, and secured against fraud, waste, loss, and misuse;
- (e) Functions and programs vulnerable to loss, misuse, and abuse are identified and appropriate controls are installed or improved;
- (f) Deficiencies are eliminated or reduced; and
- (g) Appropriate officials are in compliance with Rural Development National and State procedures and regulations, and make recommendations for corrective action.

§ 2006.605 Responsibilities.

(a) Deputy Under Secretary for Operations and Management. The Deputy Under Secretary for Operations and Management is the Rural Development's Senior MCO responsible for assuring that Rural Development's mission area maintains an effective and efficient management control system, and for reporting to the Under Secretary, who reports annually to the Secretary of Agriculture on whether there is reasonable assurance to believe that Rural Development's management control system fulfills the requirements of the FMFIA and OMB Circular A-123.

(b) Rural Development Agency Administrators. The Agency Administrators for the Rural Development mission area: Rural Business-Cooperative Service (RBS), Rural Housing Service (RHS), and Rural Utilities Service (RUS), are the Agency Senior MCOs responsible for assuring that their respective Agencies maintain an effective and efficient management control system. The Agency Administrators are also responsible for reporting to the Under Secretary for Rural Development annually on whether there is reasonable assurance to believe that the management control system fulfills the requirements of the FMFIA and OMB Circular A-123.

(c) Management Control Advisory Group (MCAG). The MCAG is a working group established for Operations and Management (O&M), the Office of Community Development (OCD); and each Agency within the Rural Development mission area.

(1) All MCAGs are chaired by the designated Management Control Officer (MCO) for Rural Development, the Director of the Financial Management Division (FMD), and is comprised of representatives from:

- (i) Each program within an Agency;
- (ii) Each administrative area within O&M;
- (iii) Policy and Planning;
- (iv) The Office of Community Development; and
- (v) Field Offices, including one State Director.

§ 2006.605(c)(Con.)

(2) Members of the MCAG will:

(i) Become familiar with all phases of Departmental, Office of Management and Budget (OMB), and General Accounting Office (GAO) guidance on management controls.

(ii) Meet at least quarterly, or at the call of the Chairperson, to discuss ongoing management controls initiatives, plan new initiatives, and to review and evaluate the implementation status of previously approved matters.

(iii) Report through the chairperson, their Agency Administrator and the Senior MCC, on identified control weaknesses, deficiencies, mismanagement, or other problems, along with recommended corrective actions and estimated resources required to correct them.

(iv) Advise and assist Agency managers in the various phases of management controls, including the conducting of risk assessments, management control reviews, or alternative corrective actions.

(v) Establish milestones, plans, and target dates for planned actions.

(vi) Perform follow-up checks and reviews to ensure that approved corrective actions have been implemented and have in fact, corrected the problem(s) they were designed to correct.

(vii) Submit management controls updates quarterly to their Agency Administrator and the Senior MCC.

(d) Senior Management Control Council (MCC). The Senior MCC is chaired by the Deputy Under Secretary for Operations and Management and consists of senior level management to establish and evaluate the management control program within Rural Development.

(1) The Senior MCC duties are to:

(i) Assess risk and make recommendations regarding material weaknesses, vulnerable/high risk areas, and needed improvements within Rural Development;

- (ii) Make recommendations concerning: material weaknesses that warrant disclosure in Rural Development's annual report to the Secretary; and appropriate statements of assurance and compliance to be included in Rural Development's annual FMFIA report;
 - (iii) Assess risks identified by the Agency MCAGs as a result of problems identified and reported to the Agency Administrators;
 - (iv) Set goals for management accountability with wider view and more perspective and tailor goals to meet overwhelming needs/risks identified in a particular area, region, or State;
 - (v) Evaluate control objectives/techniques;
 - (vi) Evaluate program delivery;
 - (vii) Evaluate mission compliance;
 - (viii) Assure regulatory compliance;
 - (ix) Evaluate the review process for effectiveness; and
 - (x) Determine the cause(s) of program strengths and weaknesses.
- (2) The term limits of the Senior MCC members are as follows:
- (i) All senior level management will remain as Senior MCC members indefinitely to maintain consistency;
 - (ii) The three State Directors' seats will be rotated and staggered as follows to retain state representation without losing all past experience:
 - (A) Each State Director will serve a term of three (3) years; and
 - (B) New State Director selections to serve on the Senior MCC will be made by the Under Secretary's Executive Council when a replacement is necessary.

§ 2006.605 (Con.)

(e) Financial Management Division (FMD) Director. The Director of the FMD is Rural Development's designated mission area MCO with the following duties:

- (1) In conjunction with the Senior MCC develops, implements, and administers management control policies that will provide reasonable assurance that the intent of the FMFIA and OMB Circular A-123 are complied with;
- (2) Serves as Rural Development's focal point of contact for all MCR matters, including OIG audits, hotlines/whistleblower complaints, and investigations and GAO audits, unless otherwise provided for, as well as liaison with the Department's OCFO;
- (3) Provides training and information on the FMFIA and OIG/OMB/GAO requirements; will provide training every 2 years to all MCOs on their responsibilities and the National Management Control process;
- (4) Summarizes national MCR results to identify weaknesses and include the material deficiencies in the annual report on management controls;
- (5) Develops and maintains an effective formalized automated tracking system that will allow for effective and efficient monitoring of reviews, weaknesses, and corrective actions stemming from Rural Development's MCR process;
- (6) Schedules, plans and coordinates the National Office MCR process for the Rural Development mission area; and
- (7) Analyzes the fiscal year-end State Summary Report of SIR/Mini-SIR findings for all States and distributes annually to all offices a nationwide compilation.

(f) State Directors. State Directors are the designated Deputy MCOs. They are responsible for assuring the implementation of the SIR process throughout their respective States.

- (1) The State Director will designate in writing the State Management Control Officer (MCO) to assist in carrying out the responsibilities of the Deputy MCO. Publication of the MCO designation will be provided to all State personnel so that questions and inquiries may be submitted to the MCO. The State Director will notify the FMD when there are any changes affecting the MCO designation.

(2) The State Director will assign, in writing, the designated representatives to serve on the State Senior Management (SSM) team. All program and administrative areas will be represented on the team.

(3) The State Director will assign the designated representatives from appropriate program and administrative functional areas as the SIR team. Each delegation will be in writing.

(4) The State Director and/or designee and State MCO will participate either by attendance or teleconference in all exit conferences.

(5) The State Director will schedule the SIRs on a 5-year SIR plan. The 5-year SIR plan will be updated annually to maintain a current plan of SIRs scheduled over a 5-year period. When changes or updates are made to the 5-year SIR plan, a copy must be sent to the FMD, STOP 0707, 1400 Independence Avenue, S.W., Washington, D.C., 20250-0707.

(6) The State Director will evaluate the performance of the State MCO and SIR team members. This evaluation should be in conjunction with their individual performance plans and conform to Departmental Regulations.

(7) After receiving recommendations from the State MCO and SSM team, the final decision to close the SIR report will be left to the State Director.

(8) The State Director will forward the State Summary Report of SIR/Mini-SIR findings, prepared in accordance with paragraph (h)(11) of this section, to the FMD, STOP 0707, 1400 Independence Avenue, S.W., Washington, D.C., 20250-0707, no later than December 31 of each year. The State Director will ensure that a copy of the State Summary Report of SIR/Mini-SIR findings is sent to each office in the state.

(9) The State Director will use the FMD developed nationwide compilation of SIR/Mini-SIR findings when developing the State's Annual Training Plan to determine areas of training which need to be conducted at the State and field office levels.

§ 2006.605 (Con.)

(g) State Senior Management (SSM) team. The State Director will designate SSM team members in writing. All program and administrative areas will be represented on the SSM team.

(1) The SSM team will be responsible for selecting offices to be reviewed each fiscal year. The SSM team will work with the MCO in developing and updating the SIR 5-year plan.

(2) The SSM team will review various management reports, Finance Office reports, FOCUS reports, etc., to preplan the management review of each office. The SSM team will identify the major trends, deficiencies, and weaknesses of functions to be reviewed to ensure they receive proper emphasis during a review.

(3) Copies of the various management reports will be provided to the SIR team.

(4) In conjunction with the MCO, the SSM team will make recommendations to the State Director regarding final closure of SIR reports.

(h) State Management Control Officer (MCO). The MCO will have the oversight responsibility as designated by the State Director to ensure that the State remains within the purview of National Office requirements in the SIR process. The MCO will:

(1) Report directly to the State Director and keep him/her informed of all issues relating to SIRs and Mini-SIRs;

(2) Participate as the team coordinator for all comprehensive SIRs;

(3) Prepare an annual plan with the SSM team for conducting the SIRs and any known Mini-SIRs. A current 5-year SIR plan will be maintained and updated annually with a copy of all changes and updates submitted to the FMD;

(4) Keep separate schedules for the SIR and Mini-SIR to ensure all offices are reviewed on a five fiscal year cycle for SIRs and as often as necessary for Mini-SIRs. SIRs should be evenly distributed over the 5-year cycle so that twenty percent of all offices are reviewed each year;

- (5) Notify all offices 20 work days prior to any SIR and Mini-SIR;
- (6) Consolidate the reports from the SIR team into the approved final format. Prepare a cover letter with a timeframe for initial response for State Director signature;
- (7) Be responsible for distribution of final report and cover letter;
- (8) Distribute copies of the reviewed office responses to SSM/SIR team for comment and recommendation of closure for the State Director;
- (9) Consolidate responses from SSM/SIR team and prepare subsequent letters for State Director signature for follow-up of corrective actions until State Director closure of reviews;
- (10) Track and monitor status of corrective actions. An automated system will be used to implement and maintain a tracking system of current information on the status of corrective actions for all management control reviews, audits, investigations, and hotlines/whistleblower complaints in the State;
- (11) Submit results of SIRs and Mini-SIRs to the FMD as shown in Exhibit E of this Instruction;
- (12) Annually complete a State Summary Report to identify statewide trends based on weaknesses identified in SIR/Mini-SIR reports completed during the year. The State Summary Report of SIR/Mini-SIR findings, together with a recommended training plan, will be sent to the State Director for evaluation and consideration;
- (13) Based on review findings, identify trends with respect to systematic problems which occur in a number of the offices reviewed;
- (14) Serve as the State's focal point of contact for all management review matters, except the RUS Electric and Telecommunications Programs. This includes MCRs, SIRs, OIG audits and investigations, GAO audits, and hotlines/whistleblower complaints;

§ 2006.605(h) (Con.)

(15) Ensure prompt handling and completeness of all audit, investigation, and hotline/whistleblower complaint responses;

(16) Attend and participate in State Office staff meetings, program review, and planning meetings; and

(17) Develop State procedures on management review matters.

(i) State Internal Review (SIR) team. The State MCO will serve as the SIR team coordinator for all SIRs. SIR team members will be designated in writing by the State Director. See Exhibit B of this Instruction for details on the SIR team.

(j) Rural Development Managers. Rural Development managers have oversight responsibilities in the SIR process as detailed in Exhibit B of this Instruction.

(k) Finance Office. The Deputy Chief Financial Officer for Rural Development, Finance Office, is responsible for assuring that adequate accounting controls are in place and functioning properly to safeguard agency resources and to administer the programs of Rural Development.

(l) Rural Development supervisors and managers. Each Rural Development supervisor and manager is responsible for maintaining effective and efficient controls over resources, for periodically evaluating these controls, and for performing timely improvement actions to reduce or eliminate identified deficiencies.

(m) Rural Development employees. All Rural Development employees are responsible for delivering the programs of Rural Development Agencies and providing the support services for these programs in such a way as to protect the public's resources from fraud, waste, loss, unauthorized use, and mismanagement.

§ 2006.606 [Reserved]

§ 2006.607 Major components of Rural Development's management control system.

Rural Development's management control system consists of four major components.

(a) GAO audits and OIG audits and investigations. GAO and OIG audits and investigations are conducted every year. They result from the continuous oversight responsibilities of both organizations. Rural Development Agencies also periodically request OIG to conduct investigations and audits. Reports of these audits and investigations contain specific deficiencies with required corrective actions. OIG, OCFO, and Rural Development Agencies monitor the implementation of the corrective actions and report on them to the Secretary. See RD Instructions 2012-A and 2012-B for specific guidance on these audits and investigations.

(b) MCRs. MCRs are detailed evaluation and review of functions from the highest operational level to the lowest. See Exhibit A of this Instruction for complete guidance on the Rural Development National Office MCR process.

(c) SIRs. SIRs are complete management control reviews of field offices and centralized program functions within a State. See Exhibit B of this Instruction for complete guidance on the SIR process.

(1) Follow-up on the SIRs will be conducted in accordance with Exhibit D of this Instruction.

(2) Mini-SIRs will be conducted for any module scoring a compliance score less than 80 percent when a SIR is conducted. Mini-SIRs will be conducted in accordance with Exhibit D of this Instruction.

(3) Reports on SIRs will contain identified weaknesses with specific corrective actions. A State summary report of SIR/Mini-SIR findings will be due to the Deputy Under Secretary for Operations and Management, Attention: FMD, STOP 0707, 1400 Independence Avenue, S.W., Washington, D.C., 20250-0707, by December 31 for the preceding fiscal year. The FMD will review each State's SIR Summary Report for compliance with this Instruction and advise the State Director and Rural Development Agency Administrators of the results of the review.

§ 2006.607 (Con.)

(d) FMD reviews. The FMD will perform on-site reviews of States' management control program to ensure compliance with this Instruction. States will be scheduled and rotated on a 5-year cycle, but may be reviewed more often as determined necessary by the FMD Director.

§ 2006.608 [Reserved]

§ 2006.609 Reporting.

(a) MCR report. MCR report requirements are detailed in Exhibit A of this Instruction.

(b) SIR report. SIR report requirements are detailed in Exhibit B of this Instruction. Exhibit C of this Instruction is a sample of a report cover page.

§ 2006.610 [Reserved]

§ 2006.611 Annual report to the Secretary.

Rural Development must report to the Secretary of Agriculture each year on the status of its management control system. The Secretary, in turn, must report to the President and to the Congress on the status of the Department's management control system.

(a) The year-end report on management controls will be prepared by the FMD based on information from all sources in the Rural Development mission area. It is due to the Secretary in October, based on the previous fiscal year's activities.

(b) The year-end report will contain the status of material weaknesses and corrective actions identified in the previous year-end report. It further will contain the identification of new material weaknesses and corrective actions arising during the previous fiscal year.

(c) The year-end report will be reviewed by the Department's Office of the Chief Financial Officer (OCFO) and combined into a USDA report.

§ 2006.612 Explanation of exhibits.

(a) Rural Development's review mechanisms must be continuously flexible since programs are added, modified, or deleted frequently. In addition, different components of the Agency (i.e. National Office, State Office, field offices, and centralized program functions) will be focusing on certain parts of the management review system separate from the rest.

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(b) Each of the exhibits is meant to describe the current methods for implementing certain processes. They are subject to revision as circumstances change and can be revised without the whole Instruction being affected.

§ 2006.613 Inquiries about management control system.

Inquiries about this Instruction or about any part of Rural Development's management control system should be directed to the FMD.

§§ 2006.614 - 2006.650 [Reserved]

Attachments: Exhibits A, B, C, D, and E.

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MANAGEMENT CONTROL REVIEWS

This exhibit provides the policies and procedures for conducting management control reviews (MCRs) of program and administrative functions within Rural Development.

I. Purpose of MCRs. An MCR evaluates existing management controls within an assessable unit from the highest operational level to the lowest to determine whether necessary controls are in place and producing the intended results. MCRs are conducted to:

- (a) Determine if policies and procedures for making grants and making and servicing loans are being implemented as directed;
- (b) Determine if policies and procedures for working with supported and targeted communities are being implemented as directed;
- (c) Evaluate the effectiveness of administrative operations including, but not limited to, personnel management, contracting, financial management, civil rights monitoring, internal controls, and automated systems;
- (d) Identify weaknesses or deficiencies in the program and administrative operations with specific corrective actions for their elimination or reduction;
- (e) Determine whether certain problem areas require further, more intensive review;
- (f) Recognize effective field office activities in the delivery of programs and in the management of personnel and resources;
- (g) Assess the effectiveness and efficiency of management controls to minimize the potential for fraud, waste, unauthorized use, or mismanagement in Rural Development; and
- (h) Inform the Deputy Under Secretary for Operations and Management, Rural Development Agency Administrators, and senior managers of the status of operations and internal controls.

II. Responsibilities.

(a) The Financial Management Division (FMD) maintains primary responsibility for the direction of the MCR process under the overall supervision of the Deputy Under Secretary for Operations and Management. This direction by the FMD includes the following:

- (1) Working with the Senior Management Control Council (MCC) and the Management Control Advisory Groups (MCAGs) within Rural Development to establish and maintain a 5-year MCR plan;
- (2) Working with senior management and program managers in developing MCR work plans, defining the scope of the review, and analysis of existing program data.
- (3) Planning for each MCR, including notification of any field offices that will be affected by the MCR and organization and preparation of the MCR review team;
- (4) Serving as team coordinator for each MCR, including the direction of entrance and exit conferences and the preparation of the final MCR report;
- (5) Implementing follow-up activities to assure timely completion of corrective actions;
- (6) Providing policy guidance and oversight to the National Office, Finance Office, and State Offices on the implementation of the MCR process; and
- (7) Serving as the contact with the Office of Inspector General (OIG), the General Accounting Office (GAO), and other organizations on the Rural Development MCR process.

(b) Rural Development Agency Administrators, Deputy Administrators, Assistant Administrators, and Staff Directors support the MCR process through:

- (1) Assigning experienced personnel to serve as MCR review team members;
- (2) Working with the FMD in preplanning the MCRs by reviewing existing data on the assessable unit(s) being reviewed to help define the scope of the review;

- (3) Developing written control objectives and techniques for all levels of an assessable unit, and written review guides to be utilized in an MCR; and
 - (4) Assuring that corrective actions are timely implemented to improve overall operations.
- (c) State Directors participate in the MCR process in their States by:
- (1) Assuring that State and field office personnel are available and cooperative during the on-site part of the MCR process;
 - (2) Being receptive to reasonable recommendations for improved operations throughout the State resulting from an MCR report;
 - (3) Implementing the required corrective actions by the scheduled dates for completion; and
 - (4) Conducting State follow-up efforts as well as cooperating in National Office follow-up efforts to determine whether the identified weaknesses have been corrected.
- (d) Responsibilities of the FMD MCR Coordinator and MCR team members are contained in subsequent sections on the actual conducting of the MCRs.

III. Frequency and content of the MCRs.

A 5-year MCR plan will be developed by the MCAGs within Rural Development, identifying assessable units, risk levels of the assessable units, and a schedule for reviews of the assessable units. The Senior Management Control Council (MCC) will review recommended plans from each MCAG, and establish a 5-year plan for all of Rural Development. The 5-year MCR plan will be reviewed annually, and revised, when necessary. In a 5-year cycle, all assessable units will have undergone an MCR of their operations.

IV. Planning the MCRs.

(a) In the third quarter of the fiscal year, MCAG meetings will be held to review their 5-year MCR plans. Subsequently, the Senior MCC will meet to review the results of the MCAG meetings and any revisions to the 5-year MCR plan for Rural Development. In particular, the schedule of MCRs for the upcoming fiscal year will be reviewed, with attention given to the following criteria:

- (1) MCRs accomplished within the previous fiscal year;
- (2) Recommendations from the Senior MCC, the MCAGs and National Office managers;
- (3) Recent changes with Rural Development programs and administrative functions; and
- (4) Budget and staff resource considerations.

(b) The number of MCR team members will vary with each assessable unit being reviewed. In determining MCR team size, consideration will be given to the size of the assessable unit, loan program caseloads, previous review findings, and related information. National Office senior managers will select personnel from their program and field offices to participate in the MCR process when appropriate. The Director of the FMD will select a MCR coordinator from the FMD and a team leader for any program or administrative area that has two or more team members. Approval of all MCR teams will be obtained from the Deputy Under Secretary for Operations and Management.

(1) Team leaders and members must be thoroughly knowledgeable of the subject to be reviewed and must possess good evaluation skills.

(2) Team leaders and members should avoid conducting reviews in States where they once worked in the State or field office. As soon as team leaders and members become aware they may be reviewing an office that they once worked in, they must notify the FMD. The FMD Director will request another team member selection in these cases.

(c) In preplanning the MCR, the FMD, senior management, and program managers, will work together to determine the scope of the review, identify resources necessary to accomplish the review, schedule the review, and analyze existing information regarding the assessable unit being reviewed.

(d) Prior to any scheduled review, the FMD will notify in writing, the appropriate National Office program manager(s) and State Director(s) confirming the specific dates of the review. At the same time, the appropriate National Office program manager(s) and State Director(s) will be notified of the MCR coordinator, MCR team members, and a proposed itinerary of offices that will be included in the review.

(e) Planning meetings of the MCR coordinator, MCR team leaders, and members, will be held prior to the MCR, under the direction of the MCR coordinator from the FMD. The planning meetings will be held by teleconference and all MCR team members are required to participate. Planning meetings are held to:

(1) Analyze the general control environment of the assessable unit being reviewed;

(2) Schedule State Office(s) and field office(s) for review, when appropriate, (some functions are headquarters only);

(3) Develop tentative itineraries; and

(4) Discuss logistics of travel and accommodations.

(f) Subsequent to the planning meetings and at least 20 work days prior to the on-site part of the review, the MCR coordinator will send the appropriate National Office program manager(s) and State Director(s) the final combined itinerary for all MCR teams and participants as well as the list of team members. Sufficient copies of the itinerary and team list will be sent for distribution to all appropriate offices.

(g) Certain program or administrative components may request that loan dockets or other information (e.g., personnel questionnaires) be obtained in advance of the on-site part of the review. These requests will be made by the appropriate Deputy/Assistant Administrators to the State Directors. The extent and timing of these requests will be coordinated by the MCR coordinator and MCR team members.

V. Conducting the MCR.

(a) Each MCR team member must use the appropriate review guide in conducting the review.

(1) The MCR review guides will be developed or updated by the appropriate National Office area. The FMD will be responsible for coordination and distribution of the review guides to MCR team members.

(2) The time allotted for the MCR should be adequate for the MCR team members to complete the review.

(3) The completed MCR review guides must accompany the final report by each MCR team. These review guides will be maintained by the FMD with the official MCR report to provide an audit trail.

(b) An entrance conference will be held with the appropriate National Office program/administrative managers and State Directors and whomever they wish to attend. All MCR team leaders and members will attend the entrance conferences unless previously approved by the FMD. The entrance conference provides the following to the National Office program/administrative manager, and the State Director:

- (1) Introduction of the MCR team members;
- (2) Explanation of the purpose, scope, and methodology (i.e., use of docket and record reviews, questionnaires, and interviews) of the assessment; and
- (3) Clarification of any itinerary questions or other concerns raised by the National or State Office.

(c) On-site reviews of documents, projects, and offices coupled with interviews of Rural Development personnel take place at the National, State, and field offices using the MCR review guides and the approved itinerary. National, State, and field office personnel must be available on the days scheduled for interviews with the MCR teams. Interviews may also be conducted with borrowers, banks, other lenders, community groups, employee associations, and other individuals and groups as appropriate for the review.

(d) All MCR team leaders and members shall meet for a pre-exit conference to coordinate review findings prior to the exit conference with National Office program/administrative managers and State Directors. This joint work session under the direction of the MCR coordinator consists of the following activities:

- (1) At the start of the session, all team leaders will provide the MCR coordinator with a copy of their findings as a draft report, including strengths, weaknesses, and recommendations for corrective actions.
- (2) Each team leader will orally present their findings to the entire MCR team. The MCR coordinator will conduct the conference and any conflicts in team member findings will be resolved before the exit conference.

(e) An exit conference will be held with the appropriate National Office program/administrative managers and State Directors and whomever they wish to attend upon conclusion of the on-site visit in a field office and when an MCR has been concluded. All MCR team leaders and members participating in the review will attend the exit conferences.

(1) The purpose of the exit conference is to acquaint the National Office program/administrative managers and State Directors with the probable findings which will be contained in the final written report.

(2) The duration of the exit conference varies; however for planning purposes, at least 2 hours should be allowed.

(3) The MCR coordinator will call upon each team leader to concisely present a summary of the strengths and weaknesses resulting from the review. All findings, as presented in the pre-exit conference work session, will be presented again without any additions or deletions. Questions and comments for purposes of clarification are encouraged.

VI. Final report of MCR findings and recommendations.

(a) All team leaders must submit their final report to the FMD within twenty work days from the date of the exit conference. The final report must contain the same findings as presented at the exit conference, and must be in the FMD approved format that the FMD provides to team leaders. The final reports must be signed by the team leaders and members and cleared through management. All supporting documentation will be sent to the FMD with the final report. Supporting data includes all completed MCR review guides, review sheets, and any other documentation used to complete the review. The supporting documentation will be retained by the FMD with official file copies of MCR reports, and does not become part of the original final report sent to State Directors.

(b) A consolidated final report will be issued by the FMD to all appropriate National Office official(s) and State Director(s) with review findings, corrective actions to remove/reduce deficiencies, responsible persons for implementation of corrective actions, and specific timeframes for implementation of corrective actions.

VII. Maintenance of records on MCRs.

(a) All National Office records, reports, guides, and questionnaires on each MCR will be maintained by the FMD to permit an audit trail for use by oversight organizations. These records will be kept by the FMD for five years or until the next MCR is conducted (whichever occurs first).

(b) The States should retain MCR records and documents for five years or until the next MCR is conducted (whichever occurs first). Whatever corrective action is taken by the State should be documented and maintained in a central file in the State Office.

VIII. Tracking of deficiencies and follow-up on corrective actions.

(a) The FMD will maintain a tracking system for findings and corrective actions for all MCR reviews. The system will be updated on a routine basis as actions are completed. More detailed discussion of the tracking system is found in Exhibit D of this Instruction.

(b) A follow-up system to assure that corrective actions have taken place and have in fact resolved the weaknesses must accompany all review processes. Exhibit D of this Instruction details the MCR follow-up system as well as follow-up activities for other types of reviews.

(c) The MCR will be considered closed when the record shows that all the corrective actions have been implemented and the identified weaknesses have been eliminated or substantially reduced.

STATE INTERNAL REVIEWS

This exhibit provides the policies and procedures for the reviews of field offices and centralized program functions by designated review members. These reviews are called State Internal Reviews (SIRs) and consist of a comprehensive evaluation by State managers of the delivery of programs and administrative functions within the State, excluding the Rural Utilities Service (RUS) Electric and Telecommunications Programs.

I. Purpose of SIRs. The SIR process is a State management review of operations in field offices and centralized program functions to:

- (a) Determine if policies and procedures for making and servicing loans/grants are being implemented according to Rural Development regulations and policy;
- (b) Determine if policies and procedures for working with supported and targeted communities are being implemented as directed;
- (c) Evaluate the effectiveness of administrative operations, including but not limited to, personnel management, contracting, collections and disbursements, civil rights monitoring, and automated systems;
- (d) Identify weaknesses or deficiencies in the program and administrative operations with specific corrective actions for their elimination or reduction and timeframes for completion;
- (e) Recognize effective field office and centralized program function activities in the delivery of programs and in the management of personnel and resources;
- (f) Assess the effectiveness of management controls to minimize the potential for fraud, waste, unauthorized use, or mismanagement in office operations;
- (g) Inform the State Director of the status of operations and controls in all offices; and
- (h) Inform the Rural Development Deputy Under Secretary for Operations and Management and Agency Administrators of the effectiveness of the State's oversight responsibilities.

II. Responsibilities.

(a) The State Director is responsible for assuring the implementation of the SIR process throughout the State. The State's Management Control Officer (MCO) will be designated in writing and will assist the State Director in conducting or directing the following activities:

- (1) Identifying State Senior Management (SSM) team members in writing to assist in preplanning the SIRs each fiscal year;
- (2) Preparation of the annual plan for conducting the SIRs;
- (3) Keeping a log of scheduled and completed reviews to ensure that offices are reviewed on a rotation basis;
- (4) Including the scheduled SIRs on a 5-year SIR plan;
- (5) Assignment of State Office staff in writing to serve on the SIR team to conduct reviews of field offices and centralized program functions;
- (6) At the discretion of the State Director, an assignment of the Rural Development Manager to accompany the SIR teams on a review of a district other than his/her own district on a rotating basis;
- (7) Evaluation of the performance of the Chiefs/Directors, State Civil Rights Coordinator/Manager, State Environmental Coordinator, State Architects and Engineers, and Rural Development Managers in conducting these reviews in conformance with this Instruction;
- (8) Review of the SIR reports in order to know the identified weaknesses and to concur in the corrective actions;
- (9) Closing the SIR report when all corrective actions have been implemented; and
- (10) Preparation and submission of the annual State Summary Report of the SIR/Mini-SIR findings to the Deputy Under Secretary for Operations and Management, Attention: Financial Management Division (FMD), STOP 0707, 1400 Independence Avenue, S.W., Washington, D.C., 20250-0707, no later than December 31 of each year.

(b) State Directors will use the FMD developed nationwide compilation of SIR/Mini-SIR findings in developing the State's Training Plan to determine areas of necessary training to assist in implementing corrective actions for weaknesses identified.

(c) The SSM team will assist State Directors in preplanning of SIRs. This responsibility includes conducting or directing the following activities:

- (1) Review and update of the 5-year SIR schedule;
- (2) Review various management reports to preplan the SIR of each office;
- (3) Identify major trends, deficiencies, and weaknesses of functions to be reviewed to ensure they receive proper emphasis in the review process;
- (4) Provide copies of various management reports to SIR team members; and
- (5) In conjunction with the MCO, review responses and make recommendations to the State Director regarding final closure of SIR reports.

III. Frequency and content of the SIRs.

(a) The SIR team shall complete reviews of all field offices and centralized program functions at least once every five years.

- (1) The State Director may elect to conduct more frequent SIRs where major trends and weaknesses have been noted, or when a change in personnel occurs.
- (2) When an analysis of various management reports indicates possible major adverse trends, deficiencies, or weaknesses, a SIR will be scheduled for those items of concern.
- (3) The SIR Handbook provides the format and content for the review of offices and centralized program functions.
- (4) The SIR Handbook may be supplemented by the State Director to address areas of concern or major emphasis within the state.

(b) Each review will result in a report covering all the programs and functions reviewed, identified strengths and weaknesses with corrective actions, and follow-up efforts for the weaknesses. The reports are to be maintained in the office reviewed and in the State Office until a new review and report is completed on the same office. In addition, the Rural Development Managers will maintain a copy of each of the review reports conducted on offices within his/her jurisdiction until the next review is completed on that particular office.

(c) By December 31 of each year, each State Director shall submit to the Deputy Under Secretary for Operations and Management, Attention: FMD, STOP 0707, 1400 Independence Avenue, S.W., Washington, D.C., 20250-0707, a summary of all SIR/Mini-SIRs conducted during the previous fiscal year. Exhibit E of this Instruction provides the format and content for the annual State Internal Review Summary Report. The summary report should contain the following items:

- (1) Cover sheet with the following
 - (i) Fiscal year of the report;
 - (ii) List of offices reviewed and review dates;
 - (iii) SIR team members; and
 - (iv) List of program and administrative operations/functions reviewed.
- (2) An introduction in narrative or bullet form that includes the following;
 - (i) Background information on the State;
 - (ii) Purpose of the analysis;
 - (iii) Benchmark used to identify trends (e.g., weaknesses noted in twenty, thirty, or forty percent of the offices reviewed); and
 - (iv) Areas with major trends identified.
- (3) List of the trends by section as found in the SIR Handbook. Use the established benchmark to identify trends, such as a weakness noted in thirty percent of the offices reviewed. Also list the frequency rate of trends identified.

(4) A summary analysis in narrative or bullet form that includes the following:

- (i) Indications and conclusions made from an analysis of the trends identified;
- (ii) Factors contributing to trends reported;
- (iii) Areas where emphasis for improvement should be placed; and
- (iv) Well-defined corrective actions for trends identified with specific dates for completion and planned follow-up efforts.

(5) Program and administrative trends that require National Office attention and actions. Include recommendations to strengthen existing operations for National Office consideration.

(6) Comparative assessment of the overall effectiveness of the current year's performance with previous years' operations.

IV. Planning the SIRs.

(a) The MCO, with the SSM team, should develop a 5-year plan for conducting the SIRs. Criteria for developing the plan are:

- (1) Time since the last review;
- (2) Management reports, previous review findings, and management's existing knowledge of the field office and centralized program function.
- (3) Recent change of manager/supervisor position; and
- (4) Budget and staff resource considerations.

(b) The SIRs should take place between October 1 - September 30, allowing sufficient time for the preparation and submission of the annual State Internal Review (SIR) Summary Report by December 31.

(c) The MCO will be the team coordinator for all SIRs to assure efficient use of all resources. In determining SIR team size, consideration should be given to loan program caseload, previous review findings, experience of personnel, and related information.

(1) The State Director will designate SIR team members in writing.

(2) The SIR team should be comprised of State Office staff who are knowledgeable of the area being reviewed.

(3) The SIR team must consist of members that do not complete the work of the area being reviewed. (e.g., a Multi-Family Housing (MFH) loan program centralized in the State Office cannot be reviewed by a MFH Coordinator performing the loan making/loan servicing functions of the MFH loans in the State.)

(4) SIR team members will conduct the on-site visits and issue a draft report at the exit conference and final report to the MCO. The MCO and SSM team are responsible for monitoring implementation of corrective action and closure of reports.

(d) States may request assistance from another State in conducting SIRs for centralized program functions if there are no other resources and options available within their own State.

(1) The State Director requesting the assistance will send a written request to the State Director the request is being made of.

(2) After agreement has been reached, a designation in writing of the SIR team member(s) that will conduct the review will be provided by the State requesting the assistance.

(3) All correspondence and requests will be made through the MCOs in each State with courtesy copies to the designated SIR team member(s) and their supervisor(s).

(e) States may request assistance from the National Office in conducting SIRs for centralized program functions if there are no other resources and options available. Requests must be in writing and submitted to the Deputy Under Secretary for Operations and Management, Attention: FMD, STOP 0707, 1400 Independence Avenue, S.W., Washington, D.C., 20250-0707. Requests must be justified with background information and details outlining how the SIRs will be accomplished if assistance is granted.

V. Conducting the SIRs.

(a) The length of the SIR will be at the State Director's discretion. The length must allow enough time for the SIR team members to perform a complete review.

(b) Each SIR team member will use the appropriate section of the SIR Handbook when conducting the reviews. A comprehensive review covering all program and administrative areas should be conducted. All questions should be answered, and "N/A" entered if the question is not applicable.

(c) The MCO will notify offices being reviewed 20 work days in advance of the actual review dates and all personnel must be available on the days of the review, unless excused by the State Director.

(d) The SIR team will conduct a brief entrance conference with the office being reviewed to discuss the purpose and scope of the SIR being conducted and any areas of concern.

(e) The SIR team will conduct the on-site portion of the review which will consist of interviews with Rural Development personnel, borrowers, bankers, other lenders, and review of projects, documents, and loan files.

(1) Appropriate Rural Development personnel in the offices reviewed will be interviewed.

(2) The MCO and SIR team will determine what other interviews will be conducted.

(i) Some borrowers should be contacted to learn of their involvement with Rural Development and to make sure they are legitimate borrowers and that the office staff are courteously servicing the public.

(ii) Organizations that deal with Rural Development routinely (e.g., banks, other lenders, construction contractors, other contractors, tenant groups, etc.) should be contacted to invite their reaction to Rural Development's delivery of programs and to learn of any problem areas.

(3) As a minimum, at least 10 dockets for individual-type loans/grants should be reviewed by the SIR team members in each program area. For group-type loans, a representative sample of dockets will be reviewed. The dockets should be pulled by the reviewers, not by the office personnel being reviewed.

(i) Loan dockets being reviewed will include loans recently closed, borrowers with servicing problems, guaranteed loans as well as insured loans, property in inventory, and rejected applicants.

(ii) Each docket reviewed should contain a notation indicating the file was reviewed for the SIR and findings with documentation are in the State Office official SIR file with signature and date by the reviewer.

(f) The SIR team will conduct an exit conference at the end of the on-site review process with the office staff to discuss general findings and provide a written copy of their findings. SIR team members will not make recommendations for corrective actions and will not provide corrective actions to office staff with the written copy of their findings at the exit conference.

(g) The Rural Development Manager, or a qualified designee, will attend all SIR exit conferences in his/her jurisdiction.

VI. Report of SIR findings and recommendations

(a) Within 10 work days of the SIR exit conference, the SIR team members' final original reports should be sent to the State Director, Attention: MCO.

(b) The reviewed office will have 10 work days from the date of the exit conference to respond with an action plan addressing the review findings. The action plan should include proposed corrective actions with details on how the deficiency will be eliminated or prevented from occurring in the future, and specific timeframes for implementation of corrective actions. The action plan must address each weakness identified in the exit conference. The action plan should be sent through their respective district manager/supervisor, if appropriate, to the State Director, Attention: MCO.

(c) The MCO will compile the SIR team members' final reports and the reviewed office's action plan with proposed corrective actions, and present them to the SSM team. The SSM team and MCO will review the findings and action plan to ensure each weakness is appropriately addressed and the proposed corrective actions will correct the noted deficiency. The SSM team and MCO may accept, add, delete, or change the action plan, insuring the corrective actions properly address the weaknesses noted.

(d) The MCO will compile the final SIR findings and final action plan with corrective actions after meeting with the SSM team. The consolidated final SIR report should consist of the following:

(1) Cover sheet, as shown in Exhibit C of this Instruction, identifying the following:

- (i) Office reviewed;
- (ii) Review dates;
- (iii) Report date;
- (iv) Date and type of the last review;
- (v) Date of the exit conference;
- (vi) Identification of State Office and Area Office staff participating in the exit conference;
- (vii) Areas included in the review; and
- (viii) SIR team members.

(2) An executive summary addressing the major findings and issues with an overall summary analysis of the review;

(3) A separate summary of review findings by each program and administrative functional area reviewed;

(4) Action plans containing recommendations with specific corrective actions addressing each weakness and target dates for completion;

(5) Timeframes for written follow-up response;

(6) Dates/timeframes for next scheduled complete SIR and any Mini-SIR; and

(7) All supporting documentation, which consists of completed sections of the SIR Handbook and additional data collected while completing the review. The supporting documentation will become part of the original SIR report to be delivered to the MCO and maintained in the State Office operational file until the next review is conducted.

(e) The consolidated final SIR report will be issued within 30 work days from the exit conference, under State Director signature with a memorandum outlining the date a response is due and any other comments as deemed appropriate. The consolidated final SIR report will be distributed as follows:

- (1) Original to the State Director, maintained by the MCO;
- (2) Copy to the reviewed office;
- (3) Copy to the Rural Development Manager, when appropriate;
- (4) Copy to the SSM and SIR team members;
- (5) Copy to the Program Directors, Environmental Coordinator, and Civil Rights Coordinator, unless they are already part of the SSM/SIR teams; and
- (6) Other personnel as deemed appropriate by the State Director.

VII. Tracking of deficiencies and follow-up on corrective actions.

(a) The MCO will maintain an automated tracking system to determine the status of corrective actions resulting from the SIRs.

(b) A follow-up system to assure that corrective actions have taken place and have in fact resolved the weakness must accompany all review processes. Exhibit D of this Instruction details the State's follow-up system for the SIRs.

(c) The Rural Development Manager will insure corrective action is taken on all recommendations delineated in a SIR report, as soon as possible, or within prescribed timeframes specified in the report.

(d) The MCO and SSM team will make recommendations to the State Director when documentation and the records show that all corrective actions have been implemented and the identified weaknesses have been eliminated or substantially reduced. The State Director will make the final decision to close a report based on the recommendations from the MCO and SSM team. The office subject to the review will be notified in writing, by the State Director, that the report is closed.

VIII. Mini-SIRs. Compliance scores of SIRs will be calculated for each section in the SIR Handbook (e.g., Financial Management, Civil Rights, Personnel and Training, Single Family Housing Application Processing, etc.). Any section falling under an eighty percent compliance score will require a Mini-SIR of that section. Mini-SIRs are part of the follow-up process and are detailed in Exhibit D of this Instruction.

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STATE INTERNAL REVIEW (SIR) REPORT
SAMPLE COVER PAGE

(STATE) STATE INTERNAL REVIEW (SIR)

Office Reviewed: _____
Review Date(s): _____
Report Date: _____
Date/Type of Last Review: _____
Date of Exit Conference: _____

State Director or Designee
and Rural Development Manager
attending the Exit Conference:

Name _____
Title _____

Name _____
Title _____

Areas Reviewed: Single Family Housing
 Multi-Family Housing
 Community Programs
 Water and Waste
 Business Programs
 Community Development
 Civil Rights
 Environmental
 Procurement
 Administrative
 Information Resource Management

Review Team: L.S. Brown, Rural Housing Director
 A.B. Black, Community Programs Specialist
 G.B. Minor, Business Programs Director
 M.M. Reynolds, Rural Development Coordinator
 D.W. Wright, State Civil Rights Coordinator/Manager
 C.D. White, State Environmental Coordinator
 E.F. Smith, Contracting Program Manager
 G.H. Jones, Human Resources Manager
 I.J. Hall, Management Control Officer
 L.M. Block, Information Resource Manager

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RURAL DEVELOPMENT
FOLLOW-UP AND REPORTING SYSTEM

I. Purpose and objectives of the follow-up system.

- (a) To ensure appropriate actions are taken on a timely basis (within prescribed timeframes) to correct or control identified deficiencies.
- (b) To determine whether deficiencies have been resolved and desired results have been achieved.
- (c) To verify that appropriate controls are in place and functioning as intended to eliminate vulnerability to loss of Agency resources due to fraud, waste, misuse, mismanagement, and misappropriation.
- (d) To provide summaries of National Office Management Control Reviews (MCRs), State Internal Reviews (SIRs), and required status reports.

II. Components of the national follow-up system.

(a) Written status reports.

(1) MCR. Within the timeframes specified in the final MCR report, the appropriate National Office program/administrative managers and State Directors will be required to report in writing to the Financial Management Division (FMD) on the status of corrective actions stemming from the review. Written responses will be required until all corrective actions have been implemented and the report is closed.

(2) General Accounting Office (GAO) and Office of Inspector (OIG) Audits.

(i) Action items contained in the GAO and OIG audit reports must be initiated, completed, and reported within the prescribed timeframes and in accordance with RD Instruction 2012-A.

(ii) The need for an on-site follow-up review will be based on the severity, frequency, and prevalence of deficiencies and the status of corrective actions.

(b) On-site follow-up review in the State. When appropriate, on-site follow-up reviews will be conducted to ensure proper actions are taken in MCRs and other reviews. The necessity for an on-site follow-up review will be based on the severity of deficiencies and the State's status reports.

1. Method.

(i) Coordination. The FMD will oversee coordination of the on-site follow-up reviews and reporting. Designated personnel will conduct on-site reviews in the State and report findings to the FMD concerning progress in correcting deficiencies identified in the MCR report.

(ii) Review team. Team members must be competent and very familiar with the operations of the area(s) they are assigned to review. The size and composition of a review team will be based on the degree of vulnerability and materiality of the problems noted in the MCR report, and the nature and status of corrective actions required. Deputy/Assistant Administrators and Staff Directors in the National Office will select and approve members for the follow-up review teams.

(iii) Scheduling. On-site follow-up reviews are to be conducted within 12-15 months of the MCR date when required.

(iv) Scope. The scope of the follow-up review will be based on the severity, prevalence, and frequency of weaknesses disclosed in the MCR report, or other reviews as appropriate. An OIG audit or a program evaluation may have resulted in the identification of significant problems which must be corrected. The follow-up review would include an assessment of whether these problems were corrected.

(v) Duration. Reviews will typically be conducted over the course of 3 days or fewer. Time spent in each office selected for follow-up review will vary depending on the scope of the review (number of interviews, dockets sampled, and records reviewed).

(vi) Sampling. Offices reviewed will include both a sample of offices reviewed during the MCR and offices which were not previously reviewed during the MCR.

(2) National Office reporting of on-site follow-up review.

(i) Due date. Team members will submit written reports on findings, including strengths and weaknesses, to the FMD within 10 work days of the follow-up review.

(ii) Content. The reports will clearly describe the status of corrective actions and conclusions regarding the progress made in resolving deficiencies disclosed in the MCR report. Team members are to document the specific dates that corrective actions were completed and include this information with any other documentation supporting the on-site review results and conclusions. Documentation supporting the findings is to be submitted to the FMD with the written report.

(3) Conclusions.

(i) The need for any additional corrective action will be determined by the results of the on-site follow-up review. The intent is to resolve all deficiencies in a responsible and timely manner.

(A) If all corrective actions have been completed and the identified problems have been resolved as verified by the National Office on-site follow-up review team, the MCR will be closed and the appropriate National Office officials and the State will be notified. No further response will be required from the National Office managers and the State Director.

(B) If corrective actions have been taken as recommended in the MCR report but the deficiencies have not been resolved, then a subsequent plan of action will be developed including timeframes for completion.

(C) If corrective actions have not been taken as recommended, the appropriate National Office officials and the State Director will be required to document the reasons for this in a written statement to the Deputy Under Secretary for Operations and Management, Rural Development, Attention: FMD, STOP 0707, 1400 Independence Avenue, S.W., Washington, D.C., 20250-0707.

(ii) The appropriate National Office officials and State Directors will be required to submit semiannual status reports to the FMD until all corrective actions have been completed.

(c) Tracking system. A formalized, automated tracking system is to be established and maintained by the FMD and the State Offices. A central person in the FMD and the Management Control Officer (MCO) in each State Office will be assigned and held responsible for monitoring the status of efforts to correct deficiencies. The automated tracking system will be used to identify widespread patterns of weaknesses, facilitate updates on progress, and to prepare status reports and annual summaries of MCRs, SIRs, and other review results. The following components are to be included in the tracking system: types of review, dates of reviews, weaknesses disclosed in the review reports, corrective actions completed, completion dates (both proposed and actual), and names of those who are assigned to take corrective actions. This tracking system will also include GAO and OIG audits, OIG investigations, and hotline/whistleblower complaints conducted in the States, Finance Office, and National Office.

III. Components of the State follow-up system.

(a) Written status reports.

(1) SIRs.

(i) Recommendations contained in the SIR reports must be considered on a timely basis by the office subject to review. Concrete corrective actions are to be initiated promptly and completed on a timely basis within prescribed timeframes.

(ii) Within 20-60 work days of the date of the SIR report, the Rural Development Manager will send the written report from the field office which clearly outlines the steps taken to correct weaknesses identified in the report, along with a memorandum insuring all corrective actions have been made, or what corrective actions remain to be implemented. The Rural Development Manager will send a written recommendation for closure of the report, or recommendation for additional corrective actions to the State Director, Attention: Management Control Officer.

(iii) The State Director will require a written status report from the reviewed office every 60 work days until all corrective actions and recommendations noted in the review have been completed. The status report must clearly itemize the specific corrective actions taken and planned in accordance with the SIR report and specify completion dates for both completed and planned actions.

(iv) The pertinent State Office program and administrative staff will review the status report for adequacy and compliance with the review report recommendations within 10 work days and recommend to the State Director whether the report should be closed or if additional information is needed. Rural Development supervisors and managers will be responsible for ensuring that corrective actions are taken in their respective jurisdictions and that identified weaknesses are eliminated.

(v) If needed, additional information or actions will be requested from the office reviewed within 60 work days of the initial status report date. Written correspondence will continue until agreement is reached regarding the sufficiency of actions taken to resolve deficiencies. Written status reports are to be submitted every 60 work days until all corrective actions have been completed.

(vi) All status reports will be cleared through the Rural Development Manager with a recommendation for closure of the report, or a recommendation for additional corrective actions.

(vii) Once all corrective actions have been completed, the State Director will notify the office reviewed, in writing, that the report is closed.

(2) OIG audits.

(i) Action items contained in the OIG audit reports must be initiated, completed, and reported within the prescribed timeframes in accordance with RD Instruction 2012-A.

(ii) The need for an on-site follow-up review will be based on the severity, frequency, and prevalence of deficiencies and the status of corrective actions.

(iii) Follow-up review results and conclusions will be reported in writing to the State Director within 10 work days of the follow-up review date.

(b) On-site follow-up reviews. When appropriate, on-site follow-up reviews will be conducted to ensure proper actions are taken in SIRs and other reviews. The necessity for an on-site follow-up review will be based on the severity of deficiencies and the subject office's status reports.

(1) Method.

(i) Coordination. The State Office MCO will oversee coordination of the on-site follow-up reviews and reporting. State and designated personnel will conduct on-site follow-up reviews and report the findings to the State Director regarding the progress in correcting deficiencies identified in the review report.

(ii) Reviewers. Individuals responsible for conducting the on-site follow-up reviews must be competent and very familiar with the operational areas they are assigned to review. The size and composition of the on-site follow-up review team will be determined by the State Director. The State Director will base the determinations on the severity of the problems disclosed in the review reports and the nature and status of the corrective actions required.

(iii) Scheduling. The on-site follow-up reviews may be conducted either in conjunction with the regularly scheduled periodic office visits or independently throughout the year. Initial on-site follow-up reviews are to be conducted within 6 months of the date of the SIR report or within 6 months of the target completion date for the subsequent action plan or OIG audit action items selected for review. Subsequent follow-up reviews are to be conducted at least every 6 months thereafter, if needed, and will continue until the State Senior Management (SSM) team, MCO, and the respective Rural Development Manager, as appropriate, have verified and are confident that the weaknesses have been corrected and effective controls are in place and functioning as intended. Corrective actions and final on-site follow-up reviews are to be completed within 12 months of the date of the SIR. Final on-site follow-up reviews for the subsequent action plan and OIG audits are to be completed within 12 months of the target completion dates for the corrective action items.

(iv) Scope. The scope of the follow-up review will be based on the severity and frequency of weaknesses disclosed in the SIR, other reviews, subsequent action plan, or OIG audit as appropriate. Follow-up reviews will be conducted in the following occurrences:

(A) A compliance score of less than 80 percent in a program or administrative area during the SIR indicates serious weaknesses that must be checked. It is mandatory that an area falling under the 80 percent compliance score will be included in a follow-up Mini-SIR. Mini-SIRs of the identified deficient area will be conducted until the compliance score for that area reaches 80 percent compliance.

(B) The State Director, with recommendations from the SSM team, MCO, or SIR teams, may require additional Mini-SIRs regardless of compliance scores. Areas requiring additional Mini-SIRs will receive special emphasis during follow-up visits.

(C) Each major area of weakness noted in the SIR report, action plan, or OIG audit as appropriate.

(D) Each deficient area for which no or only minimal corrective actions have been completed.

(v) Content. In reviewing dockets as part of the follow-up review, those dockets which contained the identified weaknesses or errors should be checked to make sure the problems were corrected. In addition, some new dockets should be reviewed to make sure that the process itself has been corrected and new errors are not being made.

(vi) Duration. The on-site follow-up reviews will typically be conducted over the course of 3 days or fewer. Time spent in each office selected for follow-up review will vary depending on the scope of the review (e.g., number and complexity of loan dockets, files, and records to be reviewed; complexity of problems and respective corrective actions required; number of interviews to be conducted; number of construction inspections to be made; etc.). On-site reviews are to be conducted in a manner that will enable the reviewer to verify that:

(A) Corrective actions required in the SIR report, subsequent action plan, and OIG audit report have been completed, and

(B) The deficiencies have been eliminated and have not recurred since the corrective action was taken.

(2) Reporting of on-site follow-up reviews.

(i) Due date. On-site follow-up reviewers will submit final written reports on findings and conclusions to the State Director with a copy to the respective Rural Development Manager, and the reviewed office, within 10 work days of the final on-site follow-up reviews.

(ii) Content. The written reports will clearly describe the status of corrective actions and conclusions regarding the progress made in resolving deficiencies disclosed in the SIR or OIG audit. Reviewers are to document the specific dates that corrective actions were completed and include this information with any other documentation supporting the on-site follow-up review results and conclusions. Reviewers are to retain adequate documentation to support the findings and file this information with the review report. Review documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer.

(c) Conclusions.

(1) The need for any additional corrective actions will be determined by the results of the on-site follow-up review. The intent is to resolve all deficiencies in a responsible and timely manner.

(2) If all corrective actions have been completed and the identified problems have been resolved as verified by the on-site follow-up reviewers, the review will be closed and the office subject to review will be informed. No further response will be required from the office reviewed.

(3) If corrective actions have been taken as recommended in the review report but the deficiencies have not been resolved, then an alternative plan of action will be developed including timeframes for completion.

(4) If corrective actions have not been taken as recommended, the Rural Development Manager will be required to document the reasons for this in a written statement to the State Director.

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(STATE) STATE INTERNAL REVIEW (SIR) SUMMARY REPORT
FISCAL YEAR 20__

REVIEWED OFFICES
REVIEW DATES

Area Office 1
01/29/00 - 02/02/00
Area Office 2
06/10/00 - 06/14/00
Local Office A
03/11/00 - 03/15/00
Local Office B
05/06/00 - 05/10/00
Local Office C
07/15/00 - 07/19/00
Local Office D
08/05/00 - 08/09/00
Local Office E
08/26/00 - 08/30/00

SIR TEAM MEMBERS:

Chris Jones, Management Control Officer, SIR Coordinator
Michael Smith, Rural Housing Program Director
Mary Brown, Community and Business Programs Director
Sue Martin, RUS Specialist (Water and Wastewater)
Charles Wright, Rural Development Coordinator
Jack James, Civil Rights Coordinator/Manager
Jane White, Environmental Coordinator
John Jackson, Contract Program Manager

*Joe Smith, BP Director from (neighboring state) reviewed the BP program
in the State Office.

AREAS REVIEWED:

Single Family Housing (Direct and Guaranteed)
Multi-Family Housing
Business Programs
Community Facilities
Water and Waste Disposal
Community Development
Environmental

- Automation
- Procurement
- Civil Rights
- Administrative
 - Financial Management
 - Office Management and Administrative Services
 - Personnel and Training

NOTE: THE FOLLOWING ENTRIES ARE "SAMPLE" ENTRIES ONLY. THEY ARE NOT INTENDED TO BE USED AS PART OF YOUR REPORT.

INTRODUCTION

(Background) The State of (STATE) is moderately populated with a wide variety of industries prospering within several mid-sized metropolitan cities. The State's rural areas are developing several new projects through the Rural Development loan programs of Community Facilities, Water and Waste Disposal, and Multi-Family Housing. The Single Family Housing guaranteed loan program was slow to start in many areas, but has since grown into a large portfolio. Overall, the State's outreach efforts have been successful in keeping the public informed of the programs available through the Rural Development mission area, and has many success stories from borrowers.

(Purpose) The purpose of the SIR Summary Report is to identify statewide trends to aid in the planning and conducting of future training needs, as well as assist State managers in directing limited staff to problem areas and potential problems.

(Benchmark) The State is comprised of 5 Area Offices and 25 Local Offices. This SIR Summary Report is based on reviews performed in FY 1996 in 2 Area Offices and 5 Local Offices. The administrative areas include all 7 offices reviewed (Area and Local) and the program areas reflect findings appropriately for the 2 Area Offices and 5 Local Offices.

(Major Trends) The most prevalent trends noted in the summary are:

- Lack of documentation and attention to details in loan processing of all loan programs.
- Safe combination is not changed when required.

SIR FINDINGS

FINANCIAL MANAGEMENT

COLLECTIONS

Strengths: The field offices have done an excellent job transitioning to the new Centralized Servicing Center, and in working with borrowers to inform them of the changes. Through the transition, we have had few complaints and have been able to resolve all concerns with meetings and excellent customer service. With the changes in the area of collections, most of the deficiencies noted will be eliminated. However, all field offices have been reminded that appropriate and clear audit trails must continue to exist for any collections that are received for processing. Until the revision of RD Instruction 1951-B, field offices are operating under the current RD Instruction 1951-B and interim guidance received from the Finance Office.

Weaknesses	Corrective Actions	Target Date
<ul style="list-style-type: none">There is no documentation that a supervisory employee is reviewing collection activities. <p>(Area Office 2, Local Offices A, B)</p>	CDM will document daily/weekly collection reviews by initialing and dating each review conducted. RDM will document quarterly reviews with a written report to the State Office, with a copy to the reviewed office.	Due 1/1/00 and each quarter thereafter until closed. *Closed 4/30/00.
Safeguarding		
<ul style="list-style-type: none">Combination of the safe is not changed when personnel who had access retire, resign, transfer, or are discharged. <p>(Area Office 1, Local Offices A, B, C, D, E)</p>	CDM will establish and maintain a tracking system documenting combination changes when required. A copy of the tracking system will be sent to the State Office quarterly for review.	Due 1/1/00 and each quarter thereafter until closed. *Closed 4/30/00.

Disbursements

<ul style="list-style-type: none"> Treasury checks are not always canceled/negotiated within 20 working days of the check date. <p>(Local Offices A, C, E)</p>	<p>CDM will review Finance Office reports 663A and 663B, for compliance of timely loan closings. CDM will report quarterly through the RDM, to the State Office.</p>	<p>Due 1/1/00 and each quarter thereafter until closed.</p> <p>*Closed 7/30/00.</p>
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SINGLE FAMILY HOUSING (SFH)

APPLICATION PROCESSING

Strengths: All field offices have done an excellent job in maximizing the 504 loan authority, which has reduced the need for grants. The State continues to excel in the guaranteed program and there is a good working relationship with lenders Statewide. Again, good customer service has benefited the State in several ways, but it has definitely improved the guaranteed program and lender relationships.

Weaknesses	Corrective Actions	Target Date
<ul style="list-style-type: none"> Withdrawal letters do not always include the ECOA paragraph. <p>(Local Offices B, C, D, E)</p>	<p>Effective immediately, the ECOA paragraph was added to all required letters in the systems database to eliminate the weakness. CDM must send copies of the next five withdrawal letters issued to the State Office.</p>	<p>Due within 60 days of report.</p> <p>*Closed 4/30/00.</p>
<ul style="list-style-type: none"> Eligibility determinations are not made within 30 days of a completed application, and/or not documented on the application. <p>(Local Offices A, E)</p>	<p>CDM should send copies of the next four applications to the State Office for review. RDM to review quarterly and report to State Office.</p>	<p>Due 1/1/00 and each quarter thereafter until closed.</p> <p>*Closed 7/30/00.</p>

Loan Processing and Closing

Weaknesses	Corrective Actions	Target Date
<ul style="list-style-type: none">Promissory Notes are not properly completed with changes initialed by the borrower. (Local Office C)	CDM should conduct review of existing Promissory Notes for proper completion. Any changes should be initialed by the borrower. An action plan should be developed showing how the review and necessary corrections will be accomplished within 6 months.	Action plan - due 60 days from report. Implementation due within 6 months from report. *Action plan recd. 4/30/00.
<ul style="list-style-type: none">The Subsidy Repayment Agreement is not properly completed, and a copy filed in the borrower's file. (Local Offices C, D, E)	CDM should review all files using the approved State checklist for completeness and accuracy of information. Document reviews in the case file running record. RDM will review the next five closed loans and report to the State Office within 60 days.	60 days from the report.

SUMMARY ANALYSIS

Three of the four major findings reported in FY 1996 were not recurring in FY 1997. This indicates proper emphasis and attention was directed to implement corrective actions to eliminate one of the major trends from FY 1996. However, of the total trends reported in FY 1996, 38% were recurring in FY 1997, and 15% have been recurring since FY 1990. This could be from several contributing factors, such as:

- Reorganization and its impact on staffing levels and personnel changes within field offices.
- Loss of several employees with over 25 years of experience from recent buyouts and reorganization, and lack of training funds to properly train new employees taking their places.
- Less staff with more job duties and responsibilities making attention to all details more difficult.
- Lack of proper work organization and prioritization of job duties.

Emphasis and Training

Emphasis for improvement should be placed on following checklists and guides to ensure proper documentation and all necessary forms are in files. In addition, staff meetings should be held to prioritize and organize work throughout offices.

Overall, a training schedule has been developed to cover weaknesses found in all loan programs. Rural Development Managers and State Office staff will be training all office staffs throughout the year. The first training session for Local Office staff is planned for February 1999, after the first State and Area staff meetings are held. The first training session for centralized program function offices is planned for May 1999. Follow-up on the training will be done the next month by reviewing new cases in order to monitor whether the training was effective, to assure complete implementation of all corrective actions, and to eliminate weaknesses. This schedule will be followed every other month until all staff have received the necessary training.

Follow-up efforts have also included Rural Development Managers' oversight of review findings until the weaknesses have been corrected. The State plans to continue oversight in this manner, and future training sessions as needed.

Recommendations for National Office

Our reviews reflect that most of the discrepancies found can be handled at the State and Area levels. However, the one area in which we feel National Office assistance is needed is in environmental training. While our reviews in this area did not reveal any significant weaknesses, the limited funding and staffing the States have make it difficult to achieve. In the areas where limited or individual training can be provided, States can more easily accomplish such.

Comparative Assessment

More emphasis was placed on servicing in all loan programs, resulting in a reduction of delinquency rates and losses to the Government. As we become more efficient at our automation tasks, we can add new programs and additional assistance to field offices, as well as State Office. The training level and expertise of the staff, particularly Local Office management personnel has improved substantially.

The trends reported in the FY 1996 report received more attention and emphasis this year, with some improvement reported in this FY 1997 report. However, with continual staffing limitations, it is becoming more and more difficult to accomplish all the required tasks without errors.

The outreach efforts in all loan program areas has been very successful, as indicated by the utilization of funds in all loan program areas. This has increased the loan portfolios of all loan programs, which also increases the workloads. However, customer service has remained a priority and we continue providing the community invaluable services. The State has made great strides in reaching rural America and providing services to such.

/Signed by the State Director/

(State Director's Name)
STATE DIRECTOR

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